Review of the

Economic Research on the U.S. Corporate Tax Rate

RATE COALITION

TABLE OF CONTENTS

Economists across the United States agree that the current tax structure for corporations is detrimental to the long-term economic health of the country. Unfortunately for business owners, the corporate tax rate in the U.S. exceeds the rate among the majority of peer countries around the world.

And yet, we find ourselves in a position where certain members of Congress want to increase the corporate tax rate – or are unwilling to fight to keep it down. If Congress were to increase the corporate tax rate, it would harm productivity, investment and wages – all of which are critical factors to economic growth and competitiveness on a global scale.

Over the last four decades, most developed countries have reduced their corporate tax rates from an average of 40% to the current worldwide average of 23.5%. This encourages economic growth and allows countries to better compete in global markets. Currently, the combined federal-state corporate tax rate is 25.8%, a competitive rate close to the world-wide average. And while the current rate in the U.S. is higher than the global average, there are ill-informed proponents of an increase that would raise the U.S. rate to one of the highest in the world. They ignore the fact that corporations do not pay taxes and that the burden of the corporate tax falls on workers, consumers, and shareholders.

The RATE COALITION has reviewed the large body of economic studies on the benefits of a lower corporate rate and the negative effects of a higher one. These studies show the overwhelming evidence that the 21% corporate rate has been enormously successful in increasing investment, growth, wages, and U.S. global competitiveness. Perhaps even more important is that these studies detail how raising the U.S. rate would be harmful to working families, American businesses, and the overall health of the country's economy.

BACKGROUND

Prior to 2017 and the enactment of the Tax Cuts and Jobs Act (TCJA), the U.S. corporate tax rate was 35%. The combined federal-state tax rate was 38.9%, the highest corporate tax rate in the Organization for Economic Co-operation and Development, an international organization with 38 member countries. There was widespread consensus that the high U.S. rate – 15 percentage points higher than the average OECD rate – was harming U.S. global competitiveness, slowing investment and growth, and encouraging U.S. investment, jobs, and companies to move overseas. The TCJA reduced the corporate rate to 21% for a combined federal-state rate of 25.8%, a positive step in creating a competitive rate in line with the average OECD rate.

A COMPETITIVE 21% RATE

The TCJA and the reduction in the corporate rate to 21% have succeeded in making the U.S. globally competitive and boosting economic growth, investment, and real wages, and leading to record high corporate tax receipts. There are numerous examples of these improvements including the following:

- In the two years after enactment of the TCJA, Gross Domestic Product (GDP) growth was higher than projected by the Congressional Budget Office (CBO), income rose by $5,000, and the unemployment rate fell to the lowest level in 50 years – clear indicators that the 21% corporate rate is a boon to the country's economy.

- According to the Tax Foundation, permanently lowering the corporate tax rate "made the U.S. a more globally competitive location for new investment, jobs, innovation, and growth." We must ensure that this rate remains the standard in the U.S.

- The lower corporate rate will drive long-term economic benefits by significantly lowering the cost of capital in the U.S., leading to increased productivity and economic output, higher wages, and more jobs.

- A research report by the Center for American Prosperity found that TCJA produced a "blue-collar boom" in the wake of its enactment, with incomes reaching record highs and poverty rates record lows, while keeping inflation low and stable. The evidence shows that TCJA led firms to increase domestic investment significantly and domestic labor compensation.

In an effort to better understand how the lowered tax rate was impacting Americans, the House Ways and Means Committee held 120 listening sessions in 20 states hearing firsthand how theTCJA changed the lives of working people. Those sessions showed real wages increasing at the fastest rate in 20 years. Decreasing the corporate rate to 21% allowed businesses to increase investment and create jobs.

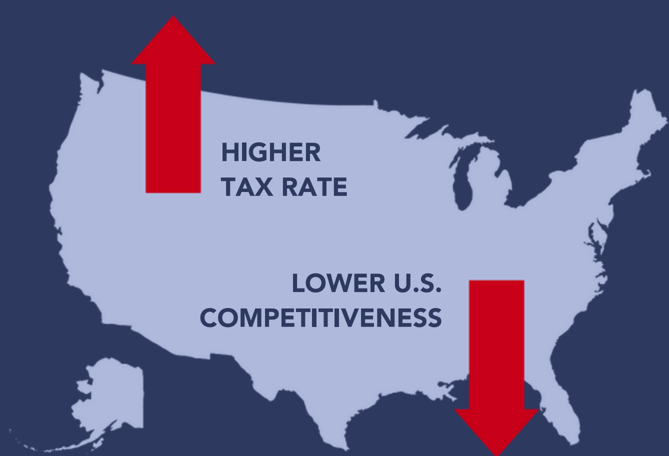
The evidence is clear. A competitive 21% rate is essential in keeping America on the right footing to compete in an ever growing global economy.

U.S. COMPETITIVENESS

As mentioned above, prior to the rate cut enacted in 2017, the combined federal-state tax rate was 38.9% – the highest rate in the developed world. When compared to OECD member countries, which have an average of 23.7%, the U.S. was significantly higher. A study by the Tax Foundation released in 2019 stated that the lower tax rate enacted in the TCJA "significantly increased" America's competitive advantage over our global competitors. This argument aligns perfectly with the intent of the bill, which was to "promote economic growth and unleash the global competitiveness of America," according to the report that was released by the House Ways and Means Committee.

The Business Roundtable cites data reported in a *Wall Street Journal* opinion piece that following the implementation of the TCJA, "more than 500 companies announced wage increases, bonuses, new hiring or enhanced benefits, helping more than six million employees around the country. Increases to the corporate tax rate could reverse this trend."

Simply put, a higher tax rate puts U.S. businesses at a competitive disadvantage and threatens America's competitiveness.



Additional resources detailing how an increase of the the corporate tax rate would negatively impact the country's competitiveness can be found here: Congresswoman Miller OpEd,Bruce Thompson OpEd July 2024, Bruce Thompson OpEd June 2024.

CAPITAL INVESTMENT

All evidence points to the fact that corporate tax reforms enacted in TCJA, including the 21% rate, strongly boosted capital investment and growth. Economists with the National Bureau of Economic Research (NBER) published a study titled "Tax Policy and Investment in a Global Economy," which found that because of the lower tax rate, domestic capital investment increased by 20%. The study also showed that over the long run, the rate cut is projected to increase productivity, real wages, and GDP growth. These findings are consistent with a large body of other economic research all showing that a lower corporate tax rate leads to increased investment, wages, and growth. Additional resources regarding capital investment can be found here: Tax Foundation White Paper, CATO Institute Article.

20%

INVESTMENT IN AMERICA

The lower corporate tax rate and other corporate tax reforms enacted in 2017 have encouraged companies to increase investment in America and have significantly reduced moving investment and jobs overseas. According to research presented to the United States Senate Finance Committee by Dr. Michelle Hanlon of MIT's Sloan School of Management, the high corporate rate prior to TCJA was a key driver for why U.S. companies moved their operations, profits and jobs overseas. Dr. Hanlon further testified that the lower 21% rate has been an important factor in reversing these incentives and increasing capital investment in the United States Additional analysis by the National Association of Manufacturers (NAM) showed that the lower rate has led to increased investment, job creation, and wage increases in the U.S. In 2018, the year the lower rate took effect, U.S. manufacturers created 260,000 jobs (the most in 21 years) and increased wages by 3%, which was the best in 15 years. Other studies by the Tax Policy Coalition have found that TCJA encouraged foreign-owned U.S. companies to reinvest more of their earnings in the U.S. Finally, in a letter to the House Committee on Ways and Means, the Business Roundtable stated that domestic companies have brought back nearly $2.5 trillion in past overseas earnings since 2017.

260,000

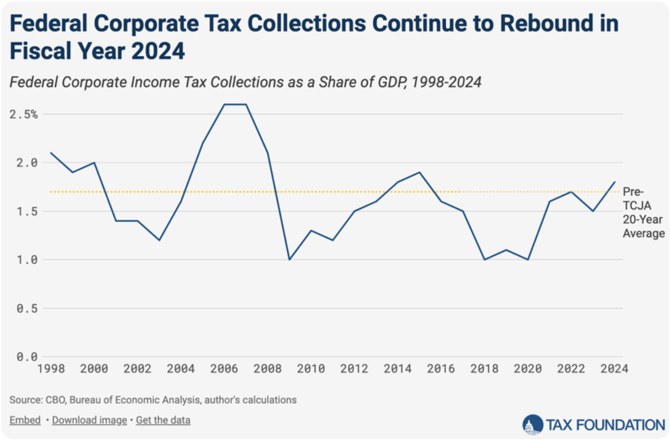
MANUFACTURING JOBS CREATED

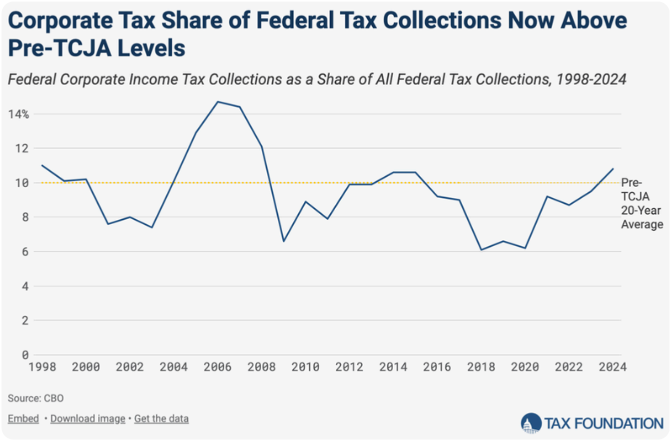
3%

WAGE INCREASE

CORPORATE TAX RECEIPTS

The increased investment and growth from the lower corporate tax rate have led to higher than projected corporate tax receipts. And despite claims that the lower corporate tax rate has increased the national deficit, studies show that corporate tax receipts have soared to record high levels in recent years. The Tax Foundation reports that corporate tax receipts are at or above historic levels. CBO reports that corporate tax receipts in fiscal 2024 increased $110 billion, or 26%, to $530 billion. Corporate tax revenue has surged since 2021 after dropping during the pandemic, with corporate taxes now 150% higher than the 2020 level. Corporate receipts are now 78% higher with a 21% rate than they were in 2017 with a 35% rate. As a share of GDP corporate receipts reached 1.8% in 2024, the Congressional Budget Office reports the highest level since 2015 and higher than the 1.7% average over the twenty years prior to the corporate rate cut.





MOST ECONOMICALLY HARMFUL TAX

Scott Hodge, former president of the Tax Foundation, and one of the preeminent experts on U.S. tax policy, believes that the corporate tax is the most economically damaging tax to the country's economy and that raising the corporate tax rate is significantly more harmful than any other tax increase. Hodge isn't alone in his assessment – there is a large body of economic research that supports his position.

"A landmark study by OECD economists in 2008 determined that

THE CORPORATE TAX

was the "most harmful" to economic growth on a global scale"

A landmark study by OECD economists in 2008 determined that the corporate tax was the "most harmful" to economic growth on a global scale. This study led to many OECD countries lowering their corporate rates – many of which are far lower than the United States. An opinion piece appearing in the *Wall Street Journal* by scholars from the American Enterprise Institute details a number of studies showing how the corporate tax is most often detrimental to workers and employees. Other studies show that the corporate tax is the most damaging to growth and wages. A study by the UK-based Economics Observatory concurs that the "worst" tax to increase was the corporate tax. This study led to many OECD countries lowering their corporate rates much lower than the United States.

ENCOURAGING ECONOMIC GROWTH

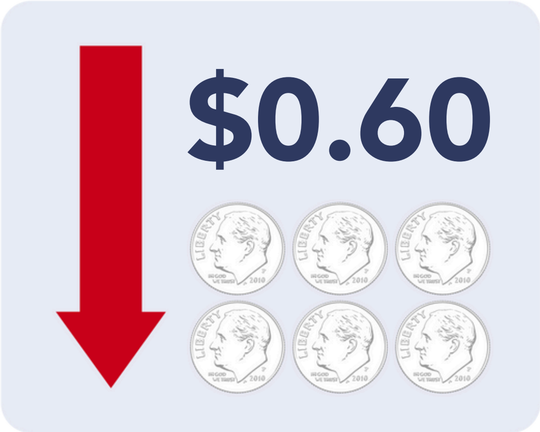
Evidence is clear that a lower corporate tax rate encourages long-term economic growth. The Tax Foundation model presented in their white paper "How Lowering Corporate Tax Rates Encourages Economic Growth," shows that reducing the corporate tax rate results in increased investment, productivity, economic growth, and higher standards of living. The Tax Foundation has done excellent work in providing resources and information to link other studies on the benefits of a lower corporate rate, including a series of OECD studies showing that a lower corporate rate leads to larger productivity growth and faster GDP growth. Additional data only bolsters the idea that economic growth is directly related to a lower corporate tax rate. The American Economic Association published a study in *American Economic Journal*: Macroeconomics examined corporate taxes in 85 countries and found that high corporate tax rates have a "large and adverse effect" on economic growth. Yet another study in the Journal of Public Economics showed that a reduction in the corporate tax rate could increase annual GDP by one-to-two percentage points.

EVEN SMALL RATE HIKES ARE HARMFUL

Some policymakers argue that a strong economy can handle a small tax rate hike. Nothing could be further from the truth. The data is incontrovertible. Studies show that even a small rate increase would have negative economic effects. An article appearing in the Annual Review of Economics found that a $1.00 raise in corporate taxes would actually reduce wages by $0.60.

Moreover, the study showed a one percentage point increase in the corporate rate would reduce investment by 0.5 to 1.0 percent. A Tax Foundation study shows raising the tax rate by any amount would shrink the economy, reduce wages, and lose thousands of jobs. According to the study, any corporate rate increase would lead to a larger GDP loss than revenue gain.

Even a small increase in the rate would harm U.S. competitiveness. A 25% rate would be a combined federal-state rate of nearly 30%, which is higher than 32 of 38 OECD countries. Perhaps even more importantly, Tax Foundation data shows a 25% rate would be higher than the corporate rate of 76% of countries of the world – including China and average rates in Europe and Asia.



ECONOMICALLY HARMFUL PAY FORS

Raising the corporate tax rate is economically harmful and should not be used to offset or pay for other tax plans or spending programs, though many look for an opportunity to do just that. Erica York, an analyst from the Tax Foundation and featured in numerous national news publications such as the *Washington Post* and *Politico* published a study comparing different types of tax increases used as "pay fors" and found that raising the corporate rate is "significantly more economically harmful" than any other tax increases. She states, "A larger economy, a simpler tax code, and fiscal responsibility should be prioritized in the upcoming debates over tax policy. When policymakers target revenue-neutral tax reform, they should look to less economically damaging sources of higher tax revenues."

Another detailed study by EY commissioned by the American Action Forum found that raising the corporate tax rate to pay for an expanded child tax credit would have "strongly negative" effects on GDP, investments, wages, and jobs, "vastly outweighing" any economic returns of expanding the child credit.

"...raising the corporate rate is "significantly more economically harmful" than any other tax increases."

IMPACT ON FEDERAL DEFICITS

All fiscally responsible policy makers are striving to reduce the federal deficit. Yet numerous studies show tax increases, including a corporate tax rate increase, could likely raise – not reduce – deficits and debt. A Penn Wharton analysis of budget reduction options found that raising the corporate rate would do the most damage to the economy, leaving debt "growing and unsustainable," and leading to long term "economic decline." In a review of deficit reduction options conducted by the Tax Foundation, analysts found that raising the corporate tax rate results in a long term reduction in GDP.

The Mercatus Center, housed at George Mason University's Schar School of Policy and Government, conducted a detailed review of studies of deficit reduction efforts concluded that "tax increases were unsuccessful in reducing deficits and more likely to result in deep and prolonged recessions." Lastly, even the Congressional Budget Office agrees. The CBO published a study in April 2024, which found that a higher corporate tax rate that led to slower productivity growth of 0.2% a year would result in a substantial revenue loss of $1 trillion over ten years.

"Slower productivity growth would result in a substantial review loss of

$1 trillion

over ten years."

LOWER WAGES FOR WORKERS

American workers would bear the brunt of a higher corporate tax rate through lower wages and overall negative impacts to the companies they work for. There are numerous studies which show how a corporate rate hike hurts workers.

- A Federal Reserve Board study found that a corporate tax rate increases would be "uniformly harmful" to workers and would cost the typical American household thousands of dollars a year.

- A University of Chicago study found that labor bears 60% of the burden of a corporate rate increase.

- Kevin Hassett, who served as the Chairman of the President's Council of Economic Advisors, and the American Enterprise Institute's Aparna Mather reviewed taxes and wages in 66 countries over 25 years and found that "higher corporate tax rates depress wages," with a 1% increase in the corporate rate leading to a 0.5% decrease in wages.

- Federal Reserve economist Alison Felix found that a 10% increase in the corporate rate would reduce wages by 7%.

- A Business Roundtable analysis of the impact on wages of the 2017 tax reforms indicated that wage increases for millions of low income workers elevated them into middle class jobs. According to the analysis, from 2018 to 2022, an estimated 7.1 million Americans at leading U.S. companies were promoted into jobs with middle class wages.

HIGHER CONSUMER PRICES

Increasing the corporate tax rate would increase consumer prices across the country. A NBER study found that a "significant portion of corporate taxes falls on consumers" in the form of higher prices for consumer goods. The study also found that low-income households would be hardest hit by the higher prices, making a corporate tax rate increase "much less progressive" than frequently argued by proponents of a corporate tax rate increase.

Data from Europe doesn't fare any better for working families. A study by the European Central Bank found that a one percentage point increase in the corporate rate would result in a 0.4% increase in retail prices. Another study by German researchers shows that the "unintended consequences" of a corporate tax rate increase is an increase in consumer prices. The study found that as much as 64% of a corporate rate increase is borne by consumers.

"...a 'significant portion of corporate taxes falls on consumers' in the form of higher prices for consumer goods.""

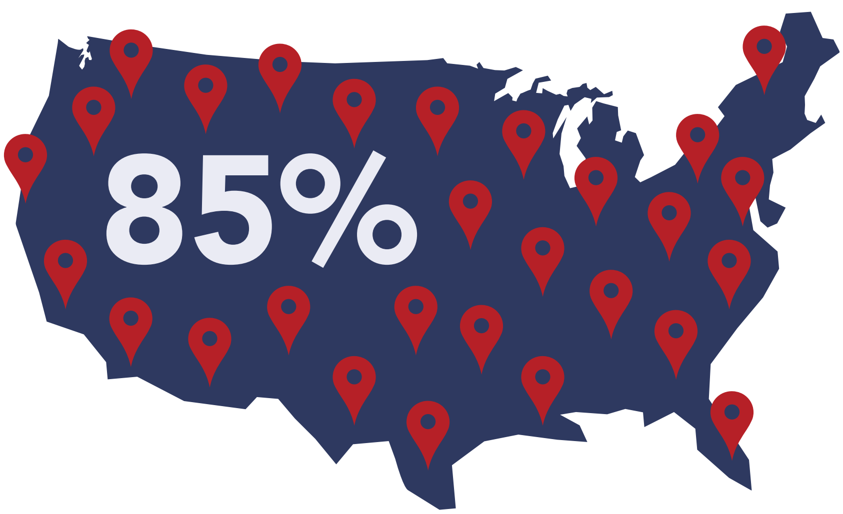
RATE COALITION

LOWER RETIREMENT SAVINGS

Nothing may be worse for Americans looking forward to retirement than increasing the corporate tax rate as the overwhelming majority of Americans hold stock (indirectly or directly) in their retirement accounts or pension plans. This is supported by analysis by the Congressional Joint Committee on Taxation, which found that 172 million taxpayers have an ownership stake in U.S. corporations and would be affected by a higher corporate tax rate. Most economic and market analysts agree that a higher corporate tax rate would lead to lower stock prices and lower account values for millions of Americans. According to one Wall Street executive, "tax policy is a huge, huge concern for investors," and a higher corporate tax rate would likely lead to a "significant pullback" in the market. An NBER study found that a higher corporate rate would have "large adverse effects" on investment and entrepreneurial activity, thus impacting the majority of Americans. Lastly, in his doctoral thesis, Dr. Christian Imboden found that an increase in the corporate tax rate would significantly alter future earnings, leading to lower stock prices.

SMALL BUSINESS IMPACT

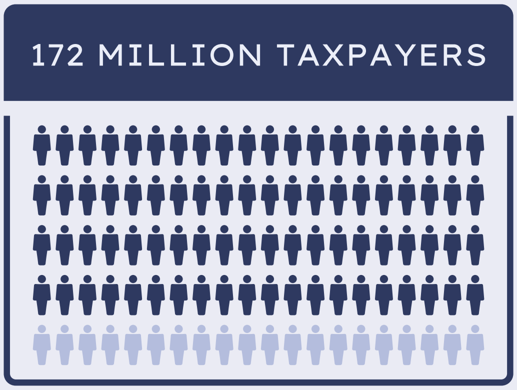
Raising the corporate tax rate would hit not just big corporations but also a large number of small businesses, which are the backbone of the American economy. According to Curtis Dubay, the chief economist from the U.S. Chamber of Commerce, as many as 1.4 million small businesses would be hit by a corporate tax rate increase. As many as 85% of these small businesses have fewer than 20 employees.



A survey of small business owners who have benefited from the lower corporate rate found that the lower rate made them more competitive, provided more capital for them to invest, and allowed them to expand jobs and offer better wages and benefits. Another survey of more than 700 business and tax leaders conducted by the Small Business and Enterprise Council found that a corporate rate increase would force many companies to reduce payments to small businesses in their supply chains to offset the added cost of the tax increases.

MIDDLE CLASS TAX INCREASES

Perhaps one of the most alarming details regarding a corporate tax increase is the impact it would have on the middle class and Americans earning less than $400,000 per year. The Joint Committee on Taxation estimates that a higher corporate tax rate would increase taxes on 172 million taxpayers, with 90% of them earning less than $200,000 a year. The Treasury Department's Office of Tax Analysis also shows that a corporate tax rate increase would hit millions of middle class taxpayers. According to the study, about 36% of the taxes raised by corporate tax rate increases would fall on taxpayers earning less than $300,000 a year.



21% RATE PAID FOR

The Joint Committee on Taxation Estimated Budget Affects of the TCJA shows that most of the static revenue cost of the reduction in the corporate tax rate to 21% was paid for in the 2017 tax bill. The Joint Committee revenue estimate shows that more than 75% of the total cost of the 21% rate was offset by other corporate tax increases and base broadeners in the bill.

>75%

POTENTIAL JOB LOSSES

According to industry-leading groups, raising the corporate tax rate would lead to higher unemployment and a significant number of jobs lost. The National Association of Manufacturers found that a 25% corporate rate would eliminate one million jobs from the economy in the first two years.

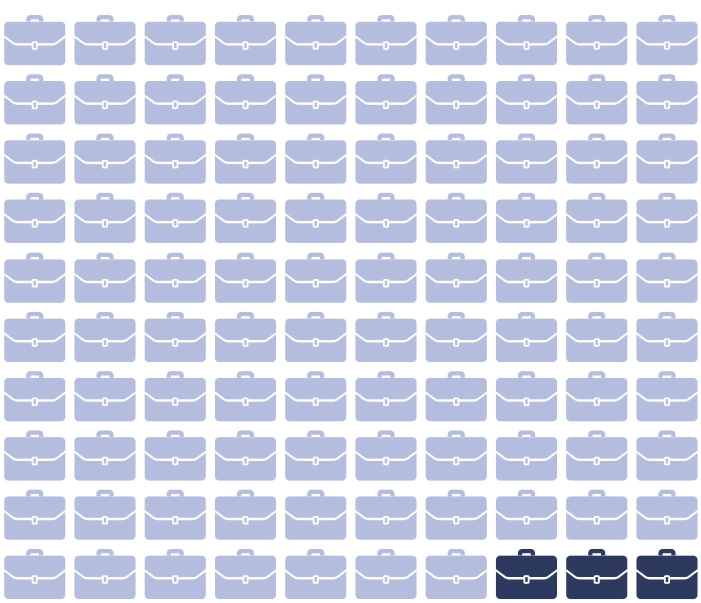
1,000,000 JOBS LOST

The American Action Forum found that a higher corporate tax rate would result in lower wages, fewer hours worked, and the loss of 650,000 jobs. Even the Federal Reserve Board found that an increase in the corporate tax rate would lead to “significant reductions in employment and income.” They found that a one percentage point increase in the corporate rate would reduce employment by between 0.3 to 0.5%. Using this metric, a 25% corporate tax rate could result in the loss of more than 2.5 million jobs. In measuring the economic effects of raising the corporate tax rate, the Tax Foundation estimated that even a one percentage point increase in the rate would reduce GDP growth and cause higher unemployment.

RETURN OF TAX INVERSIONS

In the two decades before the 2017 tax cuts, nearly one hundred U.S. companies moved to foreign countries to avoid the high U.S. corporate tax rate. An article in Investopedia illustrates that raising the rate would lead to the return of these "tax inversions," resulting in even more job losses as companies move their headquarters and operations overseas to avoid the higher rate. Since the U.S. corporate rate was reduced to a competitive level studies by the Tax Policy Center and the American Action Forum, show that tax inversions have disappeared.

Increasing the rate by the slimmest of margins would likely result in the return of tax inversions and more job losses in communities across the country. Professor Reuven S. Avi-Yona from the University of Michigan writes that with a rate increase, tax experts have said that companies would consider inversions again as a viable option to remain competitive. An increase in the rate to 25% would put the U.S. rate at a higher level than 32 of 38 OECD countries, increasing the pressure on U.S. companies to look for a jurisdiction with a more competitive rate.



"...nearly

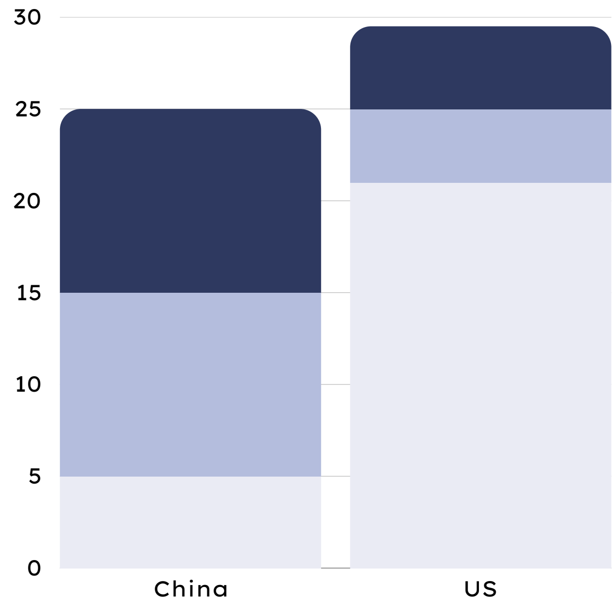
100

U.S. companies moved to foreign countries to avoid the high U.S. corporate tax rate."

CHINA'S TAX SYSTEM

"...China's tax system already promotes industry growth

better than the U.S."



The Tax Foundation believes China's tax system already promotes industry growth better than the U.S. system, providing more investment incentives, and lower corporate tax rates. China's headline corporate tax rate is 25%, close to the U.S. combined federal-state tax rate of 25.8%. However, China provides preferential low corporate tax rates from 5% to 15% for large segments of their economy. The 15% rate is applied to specific industries encouraged by the Chinese government, including the high-tech and software sectors and businesses critical to China's global supply chain. This preferential rate is 10 percentage points lower than the current U.S. rate, already giving China a competitive advantage. Raising the U.S. corporate tax rate, even by a few points, from 21% to 25%, would cause a combined rate of 29.5%, nearly 15 percentage points higher than the rate China levies on its most important business sectors competing against the U.S.

RATE

COALITION